INTERIM STUDY COMMITTEE ON AGRICULTURE AND ANIMAL ISSUES

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MEETING MINUTES[1]

Meeting Date: **August 24, 2001**
Meeting Time: **10:00 A.M.**
Meeting Place: **State House, 200 W. Washington St., Room 404**
Meeting City: **Indianapolis, Indiana**
Meeting Number: **1**

Members Present: **Sen. Robert Jackman, Chairperson; Sen. Johnny Nugent; Sen. Brandt Hershman; Sen. Allie Craycraft; Sen. James Lewis; Sen. Larry Lutz; Rep. Dale Grubb; Rep. Markt Lytle; Rep. Robert Cherry; Rep. William Friend; Rep. Richard Mangus.**

Members Absent: **Rep. Terry Goodin.**

Duties and Responsibilities of the Commission

Senator Jackman called the first meeting of the Interim Study Committee on Agricultural and Animal Issues to order at 10:00 a.m. After the Committee members introduced themselves, Sen. Jackman welcomed the members and stated that his goal as Chair was to educate the members on all sides of the topics assigned to the Committee.

Legislative Council Resolution 01-2 charged the Committee with the study of the following topics:

(1) Regulation of Pet Stores
(2) Ethanol Use and Ethanol Production Facility Funding
(3) Corn Marketing Council
(4) Agricultural Marketing
(5) Genetically Modified Seeds and Other Genetically Modified Organism (GMO) Issues.

Senator Jackman announced that this meeting would concern ethanol, and he listed the

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speakers scheduled to testify.

Mark Aylesworth, Indiana Corn Growers Association

Mr. Mark Aylesworth asked the Committee to follow the lead of other states and encourage the production of ethanol in Indiana using producer incentives. He testified that producer incentive programs have been successful in Missouri, Minnesota, and Nebraska.

Mr. Aylesworth stated that while ethanol has been very profitable for its producers during the past year and a half, it is important to look at trends in U.S. energy policy in regards to the possible phase out of MTBE in areas that do not attain air quality standards. He noted that in some states, the law requires that only ethanol be used as an oxygenate. He also stated that the demand for oxygenated fuels is increasing in California, along the east coast, and in Chicago. He said that since Indiana is close to the Chicago and eastern markets, it could be a potential supplier. To meet an anticipated tripling in demand for ethanol, he said that existing plants are building up production with the help of Commodity Credit Corporation incentives and new plants are being constructed throughout the western corn belt.

He then ask the members to consider implementing an ethanol producer incentive of $0.20/ per gallon for the first 15 million gallons of ethanol produced by farmer-owned coops. He said that any incentives should be directed to farmer owned coops so that the money would stay in the rural communities.

Stan Pinegar, Indiana Petroleum Council

Mr. Pinegar began his testimony with a discussion of the fluctuations in the retail price of gasoline. He stated that a major influence on price was the infrastructure for petroleum delivery, as crude prices have remained relatively stable. He noted that the Midwest refines only about 75% of the gasoline needed by the area, leaving it vulnerable to supply disruptions.

Mr. Pinegar then distributed a map (Exhibit 1) showing the fuel formulations required in different areas of the U.S. due to various regulations. He stated that he did not believe that MTBE was used extensively in Indiana, and that the primary oxygenate used in Lake, Porter, Clark, and Floyd counties is ethanol. He also said oil companies's decision to use either MTBE or ethanol was based on logistics and economics; noting that MTBE is used primarily on the coasts, while ethanol is used in the Midwest.

Mr. Pinegar said that if Indiana were to require MTBE to be phased out, he would ask that the petroleum industry be given at least four years to prepare, that MTBE still be allowed to cross the state via pipelines or trucks, and that a level of tolerance of MTBE be established. He also said that the industry would oppose a mandate to require ethanol in all fuels.

Mike Leister, Manager, Fuel Technology, Marathon Ashland Petroleum (MAP)

(A copy of Mr. Leister's testimony can be found in Exhibit 2).

Mr. Leister stated that his company, MAP, is one of the nation's largest blenders of ethanol, blending it into reformulated gasoline (RFG) and conventional gasoline. The company blends ethanol into RFG when some type of oxygenate is required to make to the fuel suitable for certain markets, while ethanol is blended into conventional gasoline when it is economically viable to blend the fuels. Mr. Leister noted that gasoline, when blended with 10% ethanol, enjoys a 5.3¢ per gallon exemption from the Federal Motor Fuels Tax. Mr. Leister said that without the exemption ethanol would be much less feasible.

Mr. Leister then discussed so-called “boutique fuels”, a term used to describe any gasoline that is unique to a certain specific geographical area or is different from gasoline used in surrounding areas. As an example he cited the reformulated fuel requirements in Northwest Indiana and the type required in Clark and Floyd counties. Mr. Leister said that while the nature of “boutique fuels” may hinder the market’s ability to quickly remedy a supply problem, they are not the direct cause of such problems. Mr. Leister further stated that any discussion of changes to boutique fuel policy should begin with three basic assumptions: 1) Any changes should not negatively impact supply availability; there should be no environmental back sliding; 2) Changes should not negatively impact supply availability, and; 3) Changes should avoid unnecessary increases in costs to consumers. His company believes that over the long term there should be no increase in the number of boutique fuels required and that there should be some reduction in the number of fuels may be necessary. He further stated that a radical short term reduction in the number of types of fuels could result in an actual reduction in the available supply of fuel.

Mr. Leister then spoke on oxygenates, he said that there are only two that are practical and economical-- MTBE and ethanol. He stated that an elimination of MTBE from the fuel supply would likely limit the amount of fuel available, as refiners sometimes combine it with conventional gasolene. He also asked that if MTBE is banned in Indiana, the industry should be given at least 4 years to make the necessary refining and logistical adjustments.

Next, Mr. Leister spoke on the expected increase in ethanol demand due to California’s projected phase out of MTBE and about how some states have considered mandating the use of ethanol. Two of Mr. Leister’s concerns over the mandated use of ethanol are: 1) that it will drive prices for consumers, and 2) it will reduce the federal highway funds available to the state since ethanol is exempt from the Federal Highway Tax).

G. Phillip Tevis, Independent Consultant

(A copy of Mr. Tevis’ testimony can be found in Exhibit 3.)

Mr. Tevis discussed the viability of using ethanol as a source of transportation fuel and as a fuel additive based on technical, economic, and political considerations.

On the technical level, Mr. Tevis stated that ethanol has a negative overall energy yield as a fuel when all of the necessary inputs are considered. He added that on a national level the infrastructure for delivering ethanol is lacking and that significant disruptions to the fuel supply are probable with a broad mandate. Speaking about ethanol as a fuel additive, Mr. Tevis said that while it was a good oxygenate, but it has poor mileage characteristics.

He summarized his economic consideration of ethanol production by saying that a new ethanol producer is dependent on many things outside its control; including, the availability of subsidies and the relatively high price of conventional additives. He also said that any entry into the ethanol market must be analyzed to assure that the recipients and benefits are suitable given the risks that will have to be undertaken by taxpayers.

Finally, on what he characterized as the political level, Mr. Tevis expressed concerns with mandating the use of ethanol. He stated that an ethanol mandate would create a market where one previously did not exist, and, as such, would cause a disruption in the nation’s fuel supply and delivery systems as the market adjusts.

Nathan Kimpel, Chief Operating Officer, New Generation Corp.

(A copy of Mr. Leister’s testimony can be found in Exhibit 4).

Mr. Kimpel began his testimony by stating that his company has been in the ethanol production business for 16 ½ years in South Bend. He stated that, over that time, his company has consumed nearly 450 million bushels of primarily Indiana corn, produced over 1.2 billion gallons of ethanol, paid over $122 million in wages and benefits, paid over $20 million in property taxes, and spent over $200 million on other goods and services.

After a discussion of the current and future ethanol industry, Mr. Kimpel concluded his remarks by making the following observations about growth in ethanol production. According to Mr. Kimpel, the majority of expansion required to meet is already in the works and that the industry is expected to achieve its capacity of 3.5 to 4.0 billion gallons. He also noted that expansion is occurring in states that sought value added processing with financial incentives and states with weak basis levels. (A basis level is difference between the cash price offered for a commodity versus the price paid for that commodity on the futures market.)

In response to a question regarding the shipment of ethanol to California, Mr. Kimpel stated that the American Waterways Operators Association and several of the major railroad operators believe they have the capacity to meet the shipping needs of any increase in the amount of ethanol demanded by the California market.

Mike Pitts, Indiana Petroleum Marketers and Convenience Store Association

Mr. Pitts spoke briefly on the fluctuations in the retail price of gasolene by saying that generally the free market has successfully delivered cheap gasoline to consumers. On the topic of ethanol, Mr. Pitts said that he believed the free market should be allowed to work. He also expressed concerns that some of the issues raised regarding ethanol use could have a detrimental impact on federal highway funds and a possible negative impact on sales tax revenue.

Senator Jackman thanked the speakers for coming and announced that the next meeting would be on September 7, 2001. The topics for discussion include issues related to genetically modified organisms and the regulation of pet stores (HR 115). There being no further business, Senator Jackman adjourned the meeting.